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Canada at the European Bank for Reconstruction and Development

Report on Operations Under the European Bank for Reconstruction and Development Agreement Act

2013

Canada

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Foreword

by the Minister of Finance and the Canadian Governor at the EBRD

I am pleased to present to Members of Parliament and all Canadians, *Canada at the European Bank for Reconstruction and Development 2013: Report on Operations Under the European Bank for Reconstruction and Development Agreement Act*. This report summarizes the main developments at the European Bank for Reconstruction and Development (EBRD) in 2013 and discusses Canada's engagement with, and objectives for, this important institution.

Throughout 2013, Canada continued to exercise global leadership through its position as a founding member and major shareholder of the EBRD by promoting the general principles of good governance, accountability and institutional effectiveness. This report details progress on Canada's key objectives for the EBRD in 2013 and presents Canada's 2014 objectives:

1. Encourage the EBRD to prioritize resources to countries with the greatest need, notably in the Southern and Eastern Mediterranean, and ensure the EBRD emphasizes the importance of continued domestic-led reforms as a condition for support;
2. Engage in the upcoming medium term planning process to promote a forward direction for the EBRD that is aligned with Canada's vision for the Bank, including by playing a leadership role on the graduation of advanced transition countries from the Bank's programming;
3. Support the President's modernization agenda, notably as it relates to improving business planning, budget processes and human resource management.

As Canada's Governor at the EBRD, I am pleased to see the Bank deliver in 2013 a near-record number of projects and an overall high level of transition progress toward open, market-oriented economies. A page in the EBRD's history was turned in 2013 when Jordan, Morocco and Tunisia became full countries of operations at the Bank, a move that Canada supported. Through its shared constituency at the Board of Directors with the three new recipient countries, Canada has benefitted from constructive cooperation with Jordan, Morocco and Tunisia.

Despite the progress made at the EBRD, the global economic and political environment in 2013 continued to present challenges for the Bank. Among these were the ongoing slowdown of economic and structural reforms in the EBRD's countries of operations and the unstable political and economic context in Ukraine, Turkey and Egypt, among others. Going forward, Canada will continue to support the Bank in its efforts to address these challenges and in its mission to foster transition toward open and democratic market economies—a critical component to ensuring peace and stability in the Bank's regions of operations. Our membership in, and financial support for, the EBRD allow Canada to advance these goals alongside the Bank's 65 other shareholders.

The Honourable Joe Oliver, P.C., M.P.
Minister of Finance

Overview

The European Bank for Reconstruction and Development (the EBRD or the Bank) is a unique, project-oriented international financial institution created in 1991, whose purpose is to foster transition towards open market-oriented economies and to promote private and entrepreneurial initiatives in Central and Eastern Europe, in Mongolia and, as of 2012, in the Southern and Eastern Mediterranean region. In pursuing its mission, the EBRD operates only in countries that demonstrate a commitment to the fundamental principles of multiparty democracy, pluralism and market economics.[1]

The Bank's 66 shareholders include 64 countries from across the globe and two intergovernmental organizations (the European Union and the European Investment Bank). As at December 31, 2013, the Bank's total assets reached nearly €49 billion, while its liabilities amounted to just over €34 billion. A robust capital position has helped the Bank to maintain relatively stable annual investment[2] levels in its countries of operations over the last few years, ranging roughly between €8 billion and €9 billion.

Three core operational principles guide the Bank's activities: transition impact, additionality and sound banking. Delivering on transition impact requires the Bank to ensure that its projects are achieving their transition objectives. Upholding the principles of additionality and sound banking involves generating additional flows of private sector financing, as well as ensuring good financial governance and the effective use of capital in its operations. In accordance with the Agreement Establishing the European Bank for Reconstruction and Development, the Bank is also committed to promoting environmentally sound and sustainable development. For more information on the EBRD's mandate, activities and governance, see Annex 1.

As a founding member and the eighth largest shareholder of the Bank, Canada actively contributes to the development of the EBRD's policies and provides oversight of the Bank's financial activities. Canada achieves this primarily through its seats on the Board of Governors and the Board of Directors (in a constituency that includes Jordan, Morocco and Tunisia) as well as through its participation in the work of various committees. The EBRD's Annual Meeting also provides Canada with an opportunity to meaningfully engage in dialogue with the Bank's 65 other shareholders. For more information on Canada's role at the EBRD, see Annexes 2 and 3.

Canada develops key objectives to guide its engagement with the Bank on an annual basis. These objectives are generally informed by a commitment to the EBRD's underlying mandate, the Government's policy goals, and the general principles of good governance, accountability and institutional effectiveness. Progress made on Canada's objectives in 2013, as well as Canada's objectives for 2014, are discussed in the section entitled "Canada's Objectives at the EBRD."

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1 Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development. Where countries do not demonstrate a commitment to these principles, the Bank limits its activities accordingly.

2 Annual investment refers to the amount of finance committed under signed agreements during the calendar year.

As the largest single investor in its regions of operations, the EBRD is an active international financial institution that continually works towards enhancing its activities. By investing billions annually in its recipient countries,[3] and through the implementation of an expanded regional mandate, the EBRD is able to build on its transition progress each year. Details on key achievements at the EBRD in 2013 can be found in the following section.

What Happened in 2013

In 2013, the global economic context reflected slow economic growth, high unemployment and weak investment. In this uncertain environment, many of the EBRD's recipient countries saw a decline in international capital flows and stagnation in economic reforms. Further, long-term forecasts suggest that economic growth will remain modest over the next 10 years, which could constrain future transition progress.

Despite these obstacles, the EBRD has continued to exercise meaningful engagement in its regions of operations. Through a near-record number of projects, in 2013 the EBRD invested €8.5 billion in more than 30 countries from Central Asia through Central and South-eastern Europe to the Southern and Eastern Mediterranean region. The EBRD's monitoring systems indicate that its projects in 2013 achieved high levels of transition progress toward open, market-oriented economies.

A key accomplishment during the year included Jordan, Morocco and Tunisia receiving full country of operations status at the EBRD. The Bank also continued to advance its strategic policy goals by monitoring regional developments, adopting a number of key strategic initiatives, and releasing new country strategies to guide the Bank's operations.

Progress in the Southern and Eastern Mediterranean Region: New Countries of Operations

In a reaction to the historic events that took place across the Middle East and Africa in 2011, the Agreement Establishing the European Bank for Reconstruction and Development was amended to expand the EBRD's geographical reach to include the Southern and Eastern Mediterranean (SEMED) region. With the amendment coming into force on September 12, 2013, Jordan, Morocco and Tunisia were granted full country of operations status by the EBRD's Board of Governors soon thereafter. This was a particularly significant development for Canada, which shares a constituency with these countries at the Board of Directors.

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3 Recipient countries include: (1) official countries of operations, which receive assistance through the Bank's traditional channels (Governors must pass an affirmative vote for a country to attain this status); and (2) potential countries of operations, which receive support through other EBRD mechanisms, such as Special Funds.

Building on extensive preparatory work undertaken in the previous year, in 2013 the EBRD invested €449 million in 21 projects as part of its SEMED operations in the three new recipient countries and in Egypt. Despite Egypt's political turmoil of 2013, Egypt maintained its status as a potential country of operations and therefore received support through the EBRD's Special Investment Fund. To date, the Bank has focused its SEMED operations on assisting financial institutions, developing infrastructure, supporting small and medium-sized enterprises and other private businesses, and promoting sustainable and efficient energy.

Toward the end of 2013, the EBRD received a formal request from Libya to become a member and recipient country of the Bank, and it is expected that, in the future, the Bank may receive similar requests from other countries in the region. Although not considered a SEMED country, Cyprus has also requested EBRD support to assist the country with its economic restructuring. It is expected that the EBRD will consider the requests from both countries in 2014.

Changing Context: Ukraine and Turkey

Ukraine—While the situation in Ukraine is in flux as of the release of this report, toward the end of 2013, the former Ukrainian government suspended negotiations on the Association Agreement and the Deep and Comprehensive Free Trade Area with the European Union and faced mass protests as a result. Canada expressed its dissatisfaction with the former government's reaction and committed to stand with those Ukrainians that believe in freedom, democracy, human rights and the rule of law.

As the largest financial investor in Ukraine, the EBRD plays an important role in supporting the country's transition to an open, market-oriented economy, thus reinforcing democratic progress over time. In 2013, the EBRD invested €798 million in Ukraine. Consistent with the EBRD's country strategy for Ukraine, the Bank's operations targeted the energy sector, enterprises, infrastructure, the financial sector and capital markets.

Transition Report 2013: Stuck in Transition?

The *Transition Report* is an annual report published by the EBRD on the state of economic, political and social developments in the Bank's regions of operations.

Transition Report 2013: Stuck in Transition? observes that the past few years have seen a marked slowdown in economic and structural reforms as the EBRD's countries of operations grapple with the effects of the global economic crisis.

According to the report, the Western Balkans, Georgia and Moldova remain on the reform path while uneven progress is observed in other areas, including in Turkey and the SEMED region. The EBRD remains seriously concerned about the lack of democratic reform in Belarus and Turkmenistan, and acknowledges Ukraine's challenges.

The report also notes that some of the most advanced recipient countries, particularly Hungary and the Slovak Republic, have digressed in the area of competition policy.

The full version of the report can be found on the EBRD's website at www.ebrd.com.

Turkey—During 2013, the Turkish government faced protests over its increasingly authoritarian stance, its policy regarding Syria, and the detainment of prominent individuals as part of an ongoing corruption probe. This instability was coupled with a depreciating Turkish lira, high inflation and the country's over-reliance on debt, which created a fragile economic environment.

Considered an EBRD region of operations in its own right, in 2013 Turkey benefitted from about 11 per cent of the Bank's total investment in 2013, amounting to €920 million. This is down over 12 per cent from 2012 levels (see Charts 1 and 2). The EBRD's country strategy for Turkey, released in 2012, helped guide the Bank's operations in the country over 2013.

Country Strategies in 2013

To guide the EBRD's operations in its diverse recipient countries, the Bank regularly develops and updates individual country strategies, which outline key strategic priorities for the next three or four years.

In 2013, the EBRD adopted a number of new country strategies, including for the following countries: Belarus, Croatia, FYR Macedonia, Georgia, Kazakhstan, Mongolia, Montenegro and Poland.

Most notably, the EBRD adopted Kosovo's first country strategy last year, following Kosovo's accession to the Bank as a member and country of operations in 2012. Over the next three years, the EBRD's engagement in Kosovo will focus on privatization, private sector development, commercialization, competition, private sector involvement in infrastructure, and sustainable development of the energy sector.

New Strategic Initiatives: Small and Medium-Sized Enterprises, Sustainability and Gender

At the May 2013 Annual Meeting in Istanbul, Governors considered the Bank's role in promoting small and medium-sized enterprises (SMEs) and agreed that continued EBRD support for these enterprises is necessary and may need to be ramped up. The Small Business Initiative was subsequently launched in December 2013 to enhance the EBRD's support for SMEs by developing a more coordinated and country-focused approach to the Bank's activities in this sector. Nearly half of the EBRD's projects and a fifth of its investment flows are directed at SMEs.

In addition, to address key sustainability issues while enhancing business competitiveness, the EBRD approved the Sustainable Resource Initiative (SRI) in 2013. Building on the EBRD's Sustainable Energy Initiative, the SRI is an umbrella measure promoting the efficient use of materials and water, particularly in the water-scarce SEMED region. While the SRI's full rollout is expected in 2014, the EBRD financed 32 projects with water and/or materials efficiency components across 16 countries in 2013. From a sustainability perspective, the SRI complements the EBRD's new Energy Sector Strategy, also adopted in 2013, which focuses on energy sector reforms that lead to environmentally, economically and politically sustainable results.

The EBRD also approved a Strategic Gender Initiative (SGI) in 2013, which sets out how the Bank will promote women's socio-economic empowerment, equality of opportunity and participation in the labour market through its activities. The SGI recognizes that equal opportunities for men and women contribute to the efficient use of all resources and are a fundamental aspect of a modern, well-functioning economy. The initiative comes at a critical time in the development of the Bank's SEMED operations.

Canada welcomed these new strategic initiatives and supported them at the EBRD's Board of Directors. In Canada's view, these initiatives demonstrate the EBRD's progress in building on past successes and will help enhance the Bank's operations going forward.

The EBRD's Planning Process and the President's Modernization Agenda

The Agreement Establishing the European Bank for Reconstruction and Development requires the Board of Governors to review the capital stock of the Bank at least every five years, which is undertaken through the Bank's regular Capital Resources Review (CRR). The fourth CRR covers the current period from 2011 to 2015 and is guided by the strategic objectives endorsed by Governors at the Bank's 2009 Annual Meeting, including tackling energy efficiency and climate change, helping to ensure energy security, and accelerating transition in infrastructure sectors. The Bank's upcoming planning process will be based on either the CRR structure or a new Strategic and Capital Framework and will begin in 2014.

Since 2012, the EBRD has been working on a program of internal modernization aimed at maximizing impact in the countries where the Bank invests and increasing the value it provides to shareholders. The One Bank change program, initiated by EBRD President Sir Suma Chakrabarti, seeks to build on the institution's current business model by modernizing its management culture, streamlining internal processes, developing innovative products and using policy dialogue to achieve impact beyond individual projects. Implementation is ongoing and Canada will be monitoring progress, particularly as it relates to Canada's 2014 objective in this regard (see the section entitled "Canada's Objectives for 2014").

The EBRD's Lending in 2013

The EBRD operates in diverse geographical areas stretching from Central Asia through Central and South-eastern Europe to the SEMED region. As such, the EBRD's investment flows do not accrue to the Bank's regions of operations in equal proportions. Regional investment levels are affected by various factors, including the business climate in individual recipient countries and domestic political developments that may hinder the EBRD's operations.

While the most developed Central European and Baltic countries have historically received high levels of support, these advanced transition economies saw their support further increase by 30 per cent from 2012 to 2013. Meanwhile, a number of less developed countries in Southern and South-eastern Europe and the Caucasus, including Romania, Bulgaria and Ukraine, experienced a decrease in support from 2012. Central Asia, Russia and Turkey were among other regions where the Bank's support decreased from the previous year. The charts below illustrate the regional changes in the EBRD's investment flows from 2012 to 2013.

Chart 1: EBRD Investment[1] in 2013 (€ millions)

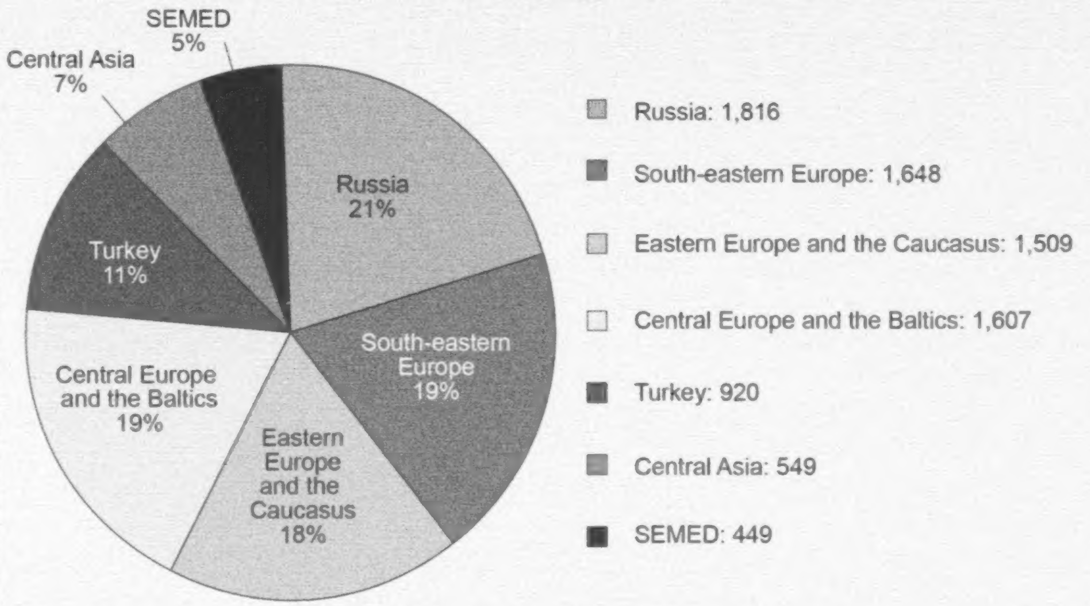
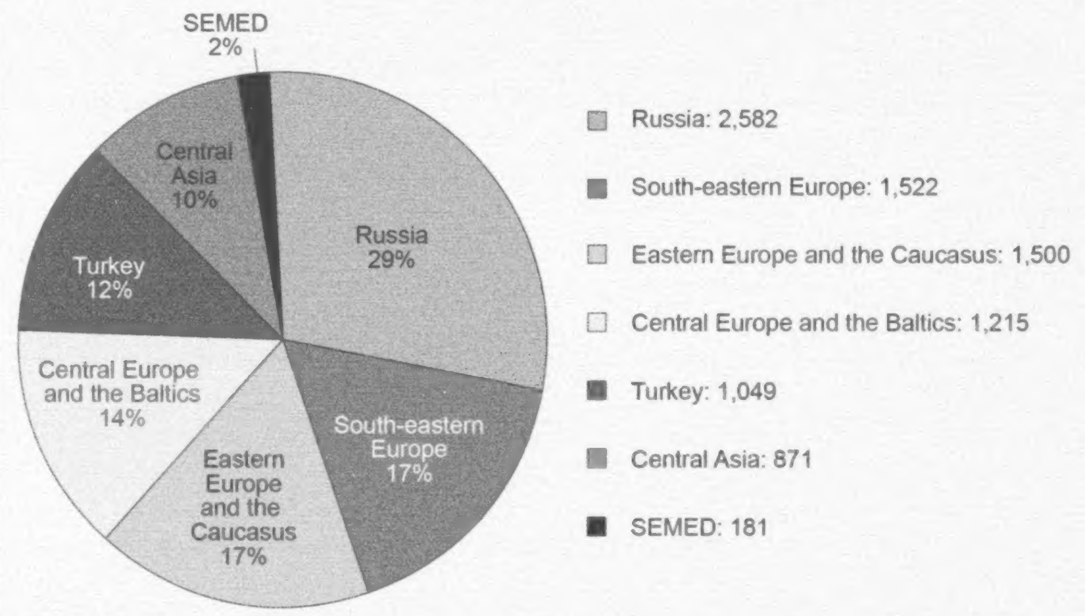


Chart 2: EBRD Investment[1] in 2012 (€ millions)



Note: Totals may not add due to rounding.

[1] EBRD investment refers to the volume of commitments made by the Bank during the year to finance investment operations, less cancellations or sales of such commitments within the same year.

The EBRD's Financial Performance

The EBRD maintained a high level of business activity throughout 2013. Bank investment totalled €8.5 billion in 2013, while disbursements reached €5.9 billion (€6.0 billion in 2012). The EBRD's projects attracted some €13.5 billion in external financing, with the EBRD directly mobilizing €759.0 million of syndicated loans (€1.0 billion in 2012). In addition, the Bank's activities remained strongly supported by donor funding, including the Special Funds Programme and Technical and Cooperation Funds.

In 2013, the Bank continued to experience good financial health with a robust capital position, high levels of liquidity and strong support from its shareholders. The EBRD continued to record healthy net realized profits in 2013, amounting to €1.2 billion (€1.0 billion in 2012). Operational and financial highlights are summarized below.

EBRD Operational and Financial Indicators, 2009–2013

(€ millions, except for number of projects)

	2013	2012	2011	2010	2009
Number of projects	392	393	380	386	311
EBRD investment	8,498	8,920	9,051	9,009	7,861
Resources mobilized	13,488	17,372	20,802	13,174	10,353
Total project value	20,527	24,871	29,479	22,039	18,087
Gross disbursement	5,900	6,000	6,700	6,000	5,500
Realized profit before impairment	1,169	1,007	866	927	849
Net profit/loss for the year before transfers of net income	1,012	1,021	173	1,377	-746
Paid-in capital	6,202	6,202	6,199	6,197	5,198
Reserves and retained earnings	8,674	7,748	6,974	6,780	6,317
Total members' equity	14,876	13,950	13,173	12,977	11,515

Overall, the Bank's strong capitalization, high levels of liquidity, low levels of non-performing loans and low leverage confirm that the EBRD continues to be in a strong position to carry out its mandate in the medium term. The Bank continues to be rated AAA or equivalent with a stable outlook by all three major credit rating agencies (Standard & Poor's, Moody's Investors Service and Fitch Ratings). The EBRD's year-end financial statements will be made available on its website (www.ebrd.com).

Canada's Objectives at the EBRD

As a founding member and the eighth largest shareholder of the Bank, Canada actively contributes to the development of the EBRD's policies and provides oversight of the Bank's financial activities through its seats on the Board of Governors and the Board of Directors. Canada is also involved in the work of various committees, and gets the opportunity to meaningfully engage in dialogue with the Bank's 65 other shareholders at the EBRD's Annual Meeting.

As part of its ongoing leadership and oversight role at the EBRD, Canada supports the Bank in delivering on its core transition mandate as effectively and efficiently as possible. In doing so, Canada works to ensure the institution's financial stability and its follow-through on commitments made as part of the fourth Capital Resources Review 2011–2015.

To provide targeted direction for its engagement with the EBRD, Canada develops key objectives for the Bank on an annual basis. These objectives are generally informed by a commitment to the EBRD's underlying mandate, the Government's policy goals, and the general principles of good governance, accountability and institutional effectiveness.

Progress on Canada's Objectives in 2013

Canada's objectives in 2013 were focused on encouraging the EBRD to effectively address transition needs in its regions of operations in a manner that respects multiparty democracy and pluralism. Further, they were meant to ensure that the Bank remains cognizant of the advanced level of transition progress in the Central European and Baltic region, which has benefitted from nearly 10 years of integration with the European Union. Canada's objectives at the EBRD in 2013 and a summary of progress made in achieving these objectives are presented below.

Objective 1: Prioritize resources to the areas of greatest need, including to the countries of the Southern and Eastern Mediterranean, and follow through on the Bank's target for EU-7[4] graduation.[5]

This objective reflects Canada's desire to ensure that a greater share of EBRD resources is dedicated toward countries with the largest transition gaps, including those in the SEMED region. Despite great strides being made toward developing functioning democracies and market economies in the SEMED countries, the transition process is still nascent in the region and requires support from the international community, including the EBRD.

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[4] The EU-7 includes Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia.

[5] Although the Agreement Establishing the EBRD does not explicitly outline the graduation process, it is expected that once a country attains an advanced level of transition and agrees to graduate, the EBRD would cease to make new investments in that country.

With Jordan, Morocco and Tunisia attaining full country of operations status in 2013, Canada was pleased to see that the Bank's investment in the SEMED region was in line with 2013 projections. As expected, the EBRD's support to the region more than doubled during the first full year of investment in the three new recipient countries. Morocco was the largest benefactor of the EBRD's SEMED investment in 2013, receiving €168 million. Going forward, Canada expects the Bank to incrementally increase its annual investment volumes in the SEMED region, as it builds a presence and expertise in the region.

Of note, in 2013 the EBRD did not finalize the process to grant full country of operations status to Egypt, which would have enabled the country to benefit from the Bank's full suite of financing and technical assistance tools in the SEMED region. The process was stalled as a result of political turmoil in Egypt during the summer of 2013 and the resulting instability. Nevertheless, the EBRD's 2013 investment in the country increased substantially from 2012 levels, rising from €10 million to €151 million.

Throughout 2013, Canada advanced its objective above, as it relates to prioritizing the EBRD's resources. For instance, at the Board of Directors Canada voted in support of all projects in the SEMED region. The Canadian representatives at the EBRD also conducted significant outreach with officials in Jordan, Morocco and Tunisia and encouraged business development opportunities for the EBRD in those countries. Canada also reinforced Jordan, Morocco and Tunisia's bid to become full countries of operations at the EBRD through an affirmative Governor's vote in November 2013, which enabled these countries to benefit from the full extent of the EBRD's support.

However, Canada was disappointed to see the EBRD's investment in the Early Transition Countries[6] decline by nearly 13 per cent from 2012 levels to €931 million, which represents a relatively small proportion of the EBRD's total investment volume. Thus, Canada believes that more work remains to be done to ensure that the EBRD's resources are appropriately targeted to areas where the gaps in transition progress are largest and where there is scope for meaningful improvement.

Working towards the timely graduation of advanced transition countries forms an important element of prioritizing the EBRD's resources to the areas of greatest need. The Bank has long acknowledged the need for its advanced recipient countries, the EU-7, to graduate. Its Medium Term Strategy underscores the expectation that these countries would graduate by 2015, in line with their declining needs and the resumption of financial markets. Prior EBRD commitments were more ambitious by setting out to graduate eight advanced transition countries by 2010. Despite these objectives, the Czech Republic has been the only country to graduate since the EBRD's founding in 1991, while Estonia is the sole EU-7 member expected to graduate by 2015. Graduation plans for other advanced recipient countries are unclear.

[6] The Early Transition Countries are countries facing the most significant transition challenges, where more than 50 per cent of the population lives below the national poverty line. These countries include Armenia, Azerbaijan, Belarus, Georgia, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.

Working at cross-purposes to the graduation goal, the Bank reversed its trend of decreasing support for the more advanced regions of Central Europe and the Baltics by increasing investments there by over 30 per cent in 2013. While support in other regions was scaled back, investments in all the EU-7 countries except Lithuania rose during 2013. For more information, see the section entitled "The EBRD's Lending in 2013" above.

To advance the EU-7 graduation goal, Canada withheld its support at the Board of Directors for proposed EBRD projects in certain advanced transition countries in cases where, in Canada's view, there was no strong rationale for the project. Further, we reinforced the objective of graduation in a number of strategic interventions at the EBRD's Board of Directors and through our Governor's statement at the EBRD's 2013 Annual Meeting (see Annex 3).

Objective 2: Ensure that EBRD financing is prioritized to countries of operations that have demonstrated an ongoing commitment to multiparty democracy, rule of law and human rights.

The Government of Canada is committed to promoting freedom, democracy, rule of law and human rights both at home and in its relations with the international community, including the EBRD. As such, Canada remains concerned by the state of human rights, democracy and rule of law in some of the EBRD's countries of operations, particularly Belarus and, more recently, Ukraine.

In response to Belarus' flawed presidential elections in 2006, Canada introduced a "limited engagement" policy in the country and has maintained this position in the wake of the equally flawed 2010 presidential elections. Throughout 2013, Canada continued to consistently oppose funding at the Board of Directors for any projects that could result in direct or indirect benefits to the Belarusian government.

In light of troubling political developments in Ukraine, which erupted in late 2013, Canada used its position on the Board of Directors to emphasize a cautious and measured approach to investments in the country. At the time that this report was published, the situation in Ukraine was very fluid. Canada will continue to closely monitor developments and will provide more details on the EBRD's engagement in Ukraine in Canada's 2014 report to Parliament.

Canada expressed its views on developments in the SEMED region in various forums, including publicly and at the Board of Directors. With respect to Egypt, Canada continued to support its participation in the EBRD as a means of promoting further political and economic reform and greater economic development. However, Canada recognizes Egypt's political and security challenges, and has urged all parties to refrain from violence and to engage in meaningful dialogue toward a more stable, inclusive, prosperous, and democratic Egypt. With regard to Tunisia, the Government of Canada criticized the actions against opposition figures in 2013, and monitored developments in the politically uncertain environment. However, Canada also welcomed progress made over the year toward the adoption of a new constitution in early 2014 that guarantees women's equal rights, seeks to prevent violence against women, and guarantees the free exercise of worship, including unequivocal language that explicitly bans accusations of apostasy.

Canada remained committed to political and economic transitions in the SEMED countries, which includes promoting progress on human rights, democracy and rule of law. As such, Canada will continue to follow developments in the region closely, including in Libya.

Canada's Objectives for 2014

Canada's objectives for 2014 highlight the ongoing relevance of our 2013 goals. They are meant to further ensure that the EBRD remains an effective, efficient and modern institution. Canada's objectives for 2014 are listed below, and will be reported on in next year's *Canada at the European Bank for Reconstruction and Development* report.

1. Encourage the EBRD to prioritize resources to countries with the greatest need, notably in the Southern and Eastern Mediterranean, and ensure the EBRD emphasizes the importance of continued domestic-led reforms as a condition for support.
2. Engage in the upcoming medium term planning process to promote a forward direction for the EBRD that is aligned with Canada's vision for the Bank, including by playing a leadership role on the graduation of advanced transition countries from the Bank's programming.
3. Support the President's modernization agenda, notably as it relates to improving business planning, budget processes and human resource management.

Annex 1

Background on the EBRD

Mandate and Role of the EBRD

The EBRD began operations in 1991. Its aims are to foster the transition towards open, market-oriented economies in Central and Eastern Europe, the successor states of the former Soviet Union, Mongolia and member countries in the Southern and Eastern Mediterranean region, and to promote private and entrepreneurial initiative in those countries that are committed to the fundamental principles of multiparty democracy, pluralism and market economics.[7] Where countries are not committed to these principles, the Bank develops a strategy for limited involvement. To deliver on its mandate, the Bank focuses its activities on assisting its 34 recipient countries in implementing economic reforms, taking into account the particular needs of countries at different stages in the transition process.

The Bank's overriding focus is the private sector, with a strong operational emphasis on enterprise restructuring, including the strengthening of financial institutions, and the development of the infrastructure needed to support the private sector. The EBRD's charter stipulates that not less than 60 per cent of its financing commitments should be directed either to private sector enterprises or to state-owned enterprises implementing a program to achieve private ownership and control. All of its financing projects have to demonstrate environmental sustainability, as per the Bank's Articles of Agreement. The Environmental and Social Policy is reviewed every three years to help ensure the Bank adopts state-of-the-art best practices in all projects.

In promoting economic transition, the Bank acts as a catalyst for increased flows of financing to the private sector, as the capital requirements of these countries cannot be fully met by official multilateral or bilateral sources of financing, and many foreign private investors remain hesitant to invest in the region, particularly the Central Asian republics.

The EBRD differs from other regional development banks in several ways. Firstly, the Bank's overriding focus is on the private sector. Further, the EBRD's mandate gives it an explicit focus on the promotion of democratic institutions in its countries of operations. The EBRD is the only international financial institution with this charter requirement. Finally, the EBRD does not provide concessional financing and poverty reduction is not specifically part of its mandate. However, development of the private sector in its countries of operations should lead to increased employment and thus help reduce poverty.

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[7] Article 1 of the Agreement Establishing the European Bank for Reconstruction and Development.

The EBRD's Operations

The EBRD's operations to advance the transition to a market economy are guided by three principles: transition impact, additionality and sound banking. Financing is provided for projects that expand and improve markets, help to build the institutions that underpin a market economy, and demonstrate and promote market-oriented skills and sound business practices. EBRD financing must also mobilize additional sources of financing and not displace them. Bank projects must be sound from a banking perspective, thus demonstrating to private investors that the region offers attractive returns. Adherence to sound banking principles also ensures the financial viability of the EBRD and hence its attractiveness as a co-investment partner for the private sector. Integrity is another important aspect of the Bank's due diligence in selecting projects.

Operational Priorities

The Bank's medium-term operational priorities are premised on: the central importance of creating and strengthening those institutions that ensure markets work well; the key role that small businesses can play in creating dynamic, competitive and more equitable economies; and the key role the transition process plays in supporting the principles of multiparty democracy and pluralism.

To achieve these priorities the Bank focuses on:

- Developing market-based and commercially oriented infrastructure.
- Developing sound financial sectors linked to the needs of enterprises and households.
- Providing leadership for the development of lending to micro, small and medium-sized enterprises.
- Demonstrating, through selected examples, effective approaches to restructuring viable large enterprises.
- Diversifying the economic base and developing knowledge-based industries.
- Taking an active approach in its equity investments to improve corporate governance.
- Engaging governments in policy dialogue to strengthen institutions and improve the investment climate.
- Tackling energy efficiency, climate change and energy security.
- Promoting transparency and accountability in public sector management.
- Taking a regional approach where appropriate.
- Promoting sustainable development and environmental due diligence.

Project Finance

The EBRD offers a full array of financial products and services, including:

- Longer-term loans.
- Equity investments.
- Quasi-equity instruments (subordinated loans, preferred stock, income notes).
- Guarantees and standby financing.
- Working capital and trade finance facilities.
- Risk management (intermediation of currency and interest rate swaps, provision of hedging facilities).

Eligibility

Eligible projects must be supported by a strong business case, benefit the economy and the transition process of the host country, and comply with the EBRD's environmental guidelines. Projects in all industries are eligible for EBRD financing, except those producing military equipment, tobacco and distilled alcohol. Although it is primarily a financier of private sector projects, the Bank may provide financing to state-owned companies, provided they are operating competitively and, in particular, that such financing facilitates or enhances the participation of private and/or foreign capital in such enterprises. The EBRD can finance private companies that are wholly locally owned or foreign owned, as well as joint ventures between foreign and local shareholders.

In order to ensure the participation of investors and lenders from the private sector, the EBRD generally limits the total amount of debt and equity financing for any single project to 30 per cent of total estimated project costs. However, in certain circumstances, and particularly in the current environment, where the syndications market is closed to most of the Bank's clients, the Bank provides a larger share of the project costs. In rare cases, such as when a project is in corporate recovery, the Bank may become the largest shareholder in order to turn the company around and sell it.

Smaller projects are financed both directly by the EBRD and through local financial intermediaries. By supporting local commercial banks, micro-finance organizations, equity funds and leasing facilities, the EBRD has helped finance over 1 million smaller projects.

Fees

The EBRD charges market rates for its private sector financing and provides uniform loan pricing for sovereigns of LIBOR (London Interbank Offered Rate) +100 basis points. In addition, fees vary according to the nature of the project and the amount and complexity of the work required of the EBRD.

Funding of EBRD Activities

The EBRD's equity and quasi-equity investments are funded out of its net worth—the total of paid-in capital and retained earnings. Of the funding required for its lending operations, 100 per cent is borrowed in the international financial markets through public bond issues or private placements.

The EBRD's bond issues have been given AAA ratings by both Moody's Investors Service and Standard & Poor's.

Policy Dialogue

The Bank uses its close relationship with governments in the region to promote policies that bolster the business environment. The EBRD advises governments on promoting a sound investment climate and stronger institutional framework, which are important for the functioning of the private sector. This dialogue is typically supportive of projects in which the Bank invests. Specifically, the EBRD works with government officials to promote sound corporate governance, anti-corruption practices, fair and predictable taxation policies and transparent accounting standards. In addition, a dedicated legal team advocates for an effective legal and regulatory framework which is not directly tied to a project.

Technical Cooperation

Technical cooperation improves the preparation and implementation of the EBRD's investment projects and provides advisory services to private and public sector clients. It increases the impact of EBRD projects on the transition process by supporting structural and institutional changes, and it assists legal and regulatory reform, institution building, company management and training.

Technical cooperation is important to the Bank as it enhances investment effectiveness by ensuring thorough preparations and enables the EBRD to take on investment opportunities in higher-risk environments. Technical cooperation projects are managed by the EBRD and funded by the Bank's profits, governments and international institutions.

The EBRD's Governance and Oversight

The highest authority in the Bank is the Board of Governors. The Board meets annually and approves the EBRD's annual report, net income allocation and financial statements, the independent auditor's report, the election of the Chair and Vice-Chair for the next Annual Meeting, as well as other items requiring Governors' approval. A Governor and an Alternate Governor represent each of the 66 shareholders.

The Board of Directors is responsible for the general operations of the Bank. It is composed of 23 members, with each representing either one member or a constituency of member countries. The Board helps to set the strategic and financial course for the Bank, in consultation with the Bank's management.

Board Committees

The Board has established four committees that are responsible for overseeing the activities of the Bank: the Board Steering Group, the Audit Committee, the Budget and Administrative Affairs Committee, and the Financial and Operations Policies Committee. This division of labour is consistent with good corporate governance practices and provides an appropriate system of checks, balances and incentives. In addition, the structure ensures a more effective discussion by the Board, once initiatives are ready for approval.

The Board Steering Group is responsible for the coordination of the Committees' work programs to avoid overlap and ensure timely completion. In addition to some administrative duties, the Chair of

the Group is the main liaison between the Board and management. The Group is currently chaired by the German Executive Director.

The Audit Committee's primary objective is to ensure that the financial information reported by the Bank is complete, accurate, relevant and timely. The Committee oversees the integrity of the Bank's financial statements and the compliance of its accounting and reporting policies with the requirements set out in the International Financial Reporting System. It also reviews the EBRD's system of internal controls and its implementation, as well as the functions of the internal audit, evaluation and risk management teams. The Committee is currently chaired by the Dutch Executive Director.

The Budget and Administrative Affairs Committee is responsible for ensuring that the Bank's budgetary, staff and administrative resources are aligned with its strategic priorities. To this end, the Committee reviews the medium-term resource framework, annual budgets and the business plan. It also oversees the Bank's human resources policies, including ethics and the Code of Conduct. The Committee is currently chaired by the United Kingdom Executive Director.

The Financial and Operations Policies Committee oversees the Bank's financial and operational policies, including the annual borrowing plan prepared by the Treasury Department. The Committee is responsible for the transparency and accountability of the Bank's operations, as laid out in the 2006 Public Information Policy. Since 2007, the Committee has also been charged with overseeing the net income allocation process. As well, it is responsible for the Bank's Environmental and Social Policy and EBRD sector strategies. The Committee is currently chaired by the Norwegian Executive Director. The Canadian Executive Director is Vice-Chair of this Committee.

For More Information on the EBRD

The Bank releases considerable information on its various activities. Bank publications include information guides (such as *Guide to EBRD Financing*), evaluation reports, special reports (such as the *Annual Report* and *Transition Report*), country strategies and assorted fact sheets.

Information can also be obtained on the Bank's website (www.ebrd.com).

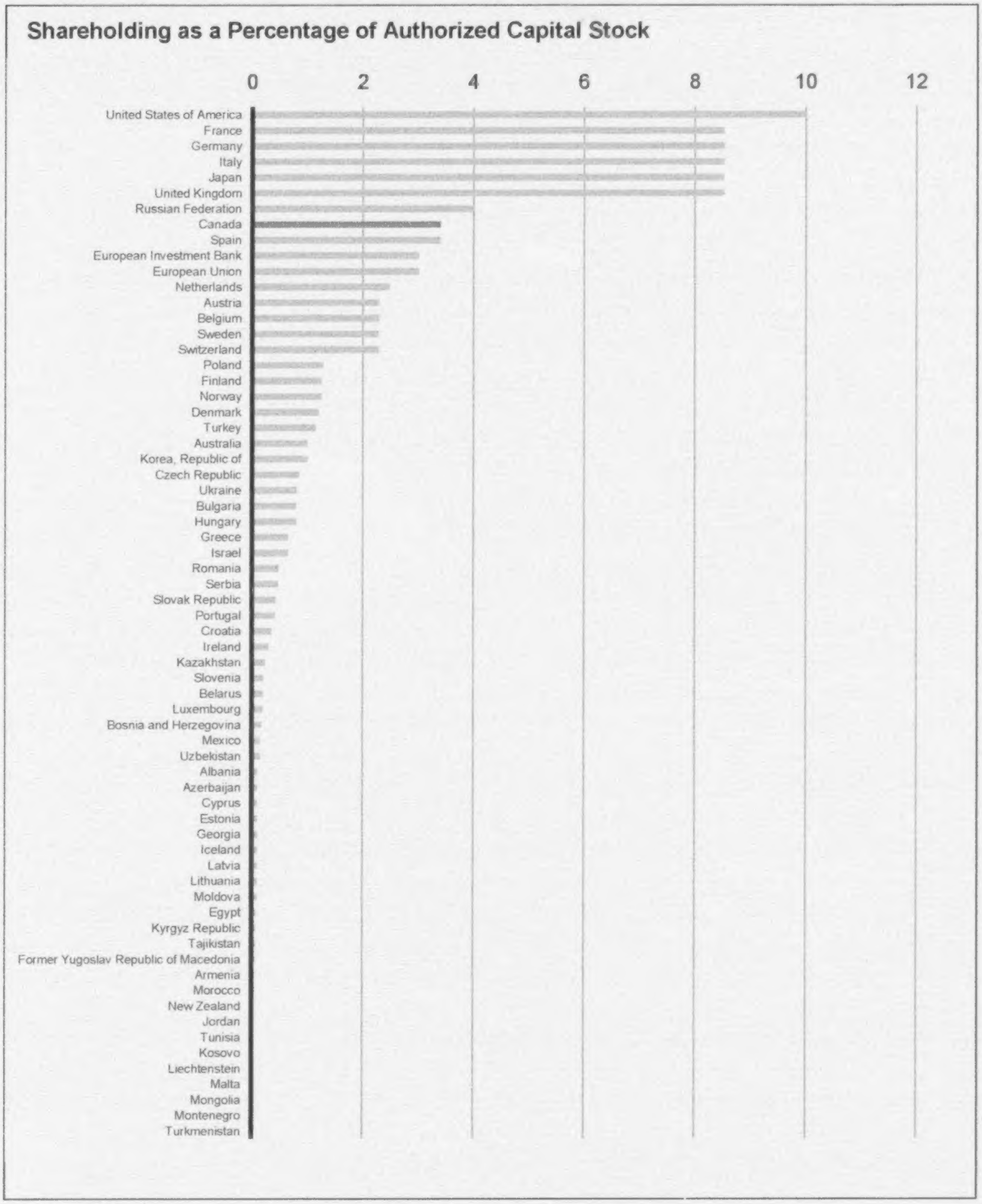
Requests for information can be addressed to:

Publications Desk
European Bank for Reconstruction and Development
One Exchange Square
London, EC2A 2JN
United Kingdom

Or to: Office of the Director for Canada, Jordan, Morocco and Tunisia
canadaoffice@ebrd.com

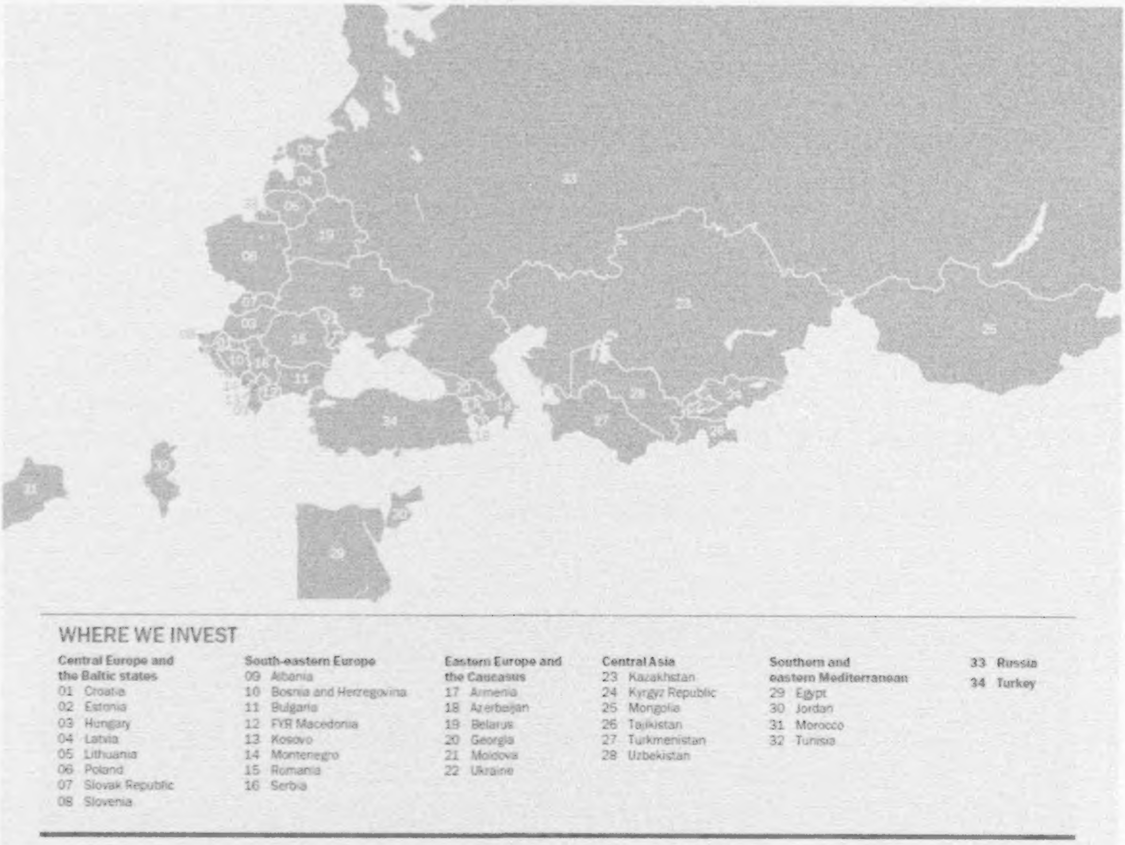
The EBRD's Membership

The EBRD's share capital is provided by member countries, with proportional voting rights. The chart below provides shareholdings as at December 31, 2013.



Countries of Operations

The EBRD has 66 shareholders: 64 countries, the European Union and the European Investment Bank. In 2013, the EBRD invested in more than 30 countries,[8] including Egypt, which is a prospective country of operations and therefore receives EBRD support from a special fund.



Source: EBRD, *About the EBRD: We Invest in Changing Lives*, December 2013.

8 Uzbekistan did not receive EBRD support in 2013.

Annex 2

Canada and the EBRD

Canada's relationship with the EBRD is governed by the *European Bank for Reconstruction and Development Agreement Act*, which outlines Canada's responsibilities with respect to the EBRD. In particular, it requires the Minister of Finance to table in Parliament an annual report of operations at the EBRD for the previous calendar year by March 31 (or, if the House is not sitting, on any of the 30 days thereafter that it is sitting).

Canada's Contribution to Ordinary Capital Resources

Canada is the eighth largest shareholder of the EBRD, with its shares representing 3.4 per cent of the institution's capital. This amounts to €1.02 billion of the Bank's capital, €213 million of which is paid-in capital, with the remaining shares being callable capital.

Oversight and Representation

The principal responsibility for oversight of the EBRD's key activities resides with the Department of Finance. The Department of Finance coordinates Canadian policy advice and manages Canada's strategic interests at the EBRD in consultation with the Department of Foreign Affairs, Trade and Development.

Canada's representation at the EBRD—The Honourable Joe Oliver, Minister of Finance, is the Canadian Governor and Mr. Daniel Jean, Deputy Minister of Foreign Affairs, is the Alternate Governor. As of January 7, 2013, Canada's resident representative on the EBRD Board of Directors is Ms. Claire Dansereau. The Honourable Ted Menzies, former Minister of State (Finance), represented Canada as the Temporary Alternate Governor at the 2013 EBRD Annual Meeting in May in Istanbul, Turkey.

Canada's constituency at the EBRD—In 2012, Canada was pleased to welcome two of the newest members of the EBRD—Jordan and Tunisia—into our constituency. The Director for Canada now represents Morocco, Jordan and Tunisia at the EBRD Board of Directors.

Canadian staff at the EBRD—Canadians are well represented on EBRD staff. At the end of 2013, there were 41 Canadians on the staff of the EBRD, representing 2.3 per cent of total positions.

Benefits of Membership

Canada's membership in the EBRD, and its active participation in the discussion of policy and operational issues, is an important means to help shape economic and social development in the EBRD's countries of operations. Canada strongly supports the overriding objective of developing a strong private sector in its countries of operations by mobilizing financing for projects with a high transition impact and by providing advice and technical assistance to businesses and governments. The Bank provides Canada with a vehicle to contribute to development in transition countries that are not currently part of our bilateral development assistance programs.

Canada's engagement helps to raise awareness among Canadian companies of opportunities presented by the EBRD. The Canadian Trade Commissioner Service regularly liaises with the EBRD's resident offices, which allows it to provide intelligence on project opportunities to Canadian companies. In addition, trade commissioners work with EBRD officials to promote transparency and rule of law in the EBRD's countries of operations, often advocating on behalf of Canadian investors active in markets in the region.

Canadian companies can seek financing for projects undertaken in the Bank's countries of operations. The Bank often relies on the procurement of goods and services from the private sector to implement transition projects. Canadian consultants were awarded contracts valued at €1,623,172 in 2013, an increase from €1,022,701 in 2012. Further, three EBRD projects were signed with Canadian companies in 2013, totalling approximately €70 million of EBRD investment in these companies. Finally, Canadian financial firms provided approximately €30 million in co-financing in support of two other EBRD projects.

Canadian Bilateral Assistance in EBRD Countries of Operations

Ukraine and Jordan

In order to increase the effectiveness of its programming, the Government of Canada focuses its bilateral development assistance efforts on a limited number of countries. Therefore, in the EBRD's region of operations, efforts are concentrated in Ukraine and Jordan.

Ukraine—Ukraine is one of Canada's 20 countries of focus for development programming, with a bilateral program budget of $20 million per year. Since 1991, Canada has contributed more than $410 million in official development assistance (ODA) to the country and is currently the sixth largest bilateral donor in Ukraine.

Jordan—In response to the recent influx of Syrian refugees into Jordan, Canada increased its development assistance to Jordan in June 2013, from an average of $7 million per year to $75 million over three years. An additional $25 million was committed to Jordan and Lebanon to build the resilience of communities and restore service delivery to pre-crisis levels. Canada's increased bilateral assistance for Jordan reinforces long-term development objectives in education and support for sustainable economic growth.

As of 2013, Canada is also providing the following support to Jordan:

- $22 million in stabilization and reconstruction assistance, including material support to Jordan's Armed Forces to ensure safe transport of refugees and support for the provision of security and other essential services near the Za'atri and Azraq refugee camps.
- $22.25 million in security assistance, which includes the provision of equipment and crisis management support to Jordan's Armed Forces and various civilian ministries.
- $2.2 million to enhance the capacity of Jordanian authorities' counter-terrorism operations.

Multilateral Funds and Civil Society Organizations

Other EBRD recipient countries benefit from the Government's support to multilateral organizations, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and the GAVI Alliance, as well as from contributions to Canadian and international civil society partners. In 2012–13, the Government provided approximately $2.9 million to 16 Canadian civil society organizations, implementing 39 projects in 11 EBRD recipient countries: Armenia, Azerbaijan, Egypt, Georgia, Jordan, the Kyrgyz Republic, Mongolia, Morocco, Tajikistan, Tunisia and Ukraine. The most active Canadian partners, by number of projects and expenditure volumes, included Équitas, the Association of Universities and Colleges of Canada, Aga Khan Foundation Canada, the Association of Canadian Community Colleges, and Oxfam-Québec. The main sectors of programming in the EBRD's recipient countries where these civil society organizations are active include democratic governance, health, basic education and private sector development.

Canada Fund for Local Initiatives and Global Peace and Security Fund

Bilateral programming is also delivered through the Canada Fund for Local Initiatives (CFLI) and the Global Peace and Security Fund (GPSF). The CFLI assists in financing small local projects in countries appearing on the Organisation for Economic Co-operation and Development's Development Assistance Committee List of ODA Recipients, including 15 of the EBRD's countries of operations. CFLI projects are designed and implemented by local civil society organizations. In 2013, the CFLI funded 42 projects in the EBRD's countries of operations for a total value of $780,000. Project themes included: supporting democratic transition, including expanded participation by women; protecting human rights and fundamental freedoms, including those of the lesbian, gay, bisexual and transgender communities; and preventing sexual violence and child, early and forced marriage.

Through the GPSF, over $13.75 million was provided to EBRD countries of operations in 2013. Initiatives supported a variety of areas, including security in Jordan, regional cooperation across Central Asia, independent media in Belarus, election observation in Ukraine, Tunisian constitutional reform, women's political participation in Tunisia and Jordan, and a rule of law project in Kosovo. In Ukraine, for example, $400,000 was provided to deploy 20 Canadian observers, including Canadian parliamentarians, to observe the 2013 repeat December parliamentary elections in five districts, where the original results were considered fraudulent.

Annex 3

Governor's Statement at the 2013 Annual Meeting

**Statement by the Honourable Ted Menzies,
former Minister of State (Finance),
and Temporary Alternate Governor for Canada in 2013,
at the EBRD Annual Meeting
Istanbul, Turkey, May 11, 2013**

I would like to thank the Government of Turkey for graciously hosting the 22nd Annual Meeting of the European Bank for Reconstruction and Development. We could not ask for a more appropriate venue for an EBRD annual meeting than Istanbul—a city that straddles continents and cultures. The Bosphorus strait is a powerful reminder of the importance of the markets that connect Asia, Europe and the Middle East, which speaks to the very purpose of the EBRD.

Canada is a proud partner of this institution. We believe strongly in the Bank's core mission to foster the transition towards market-oriented economies and to invest in countries that have demonstrated a commitment to multiparty democracy, rule of law and human rights.

We are pleased to have seen good progress on a number of fronts over the past year. Following the ratification of the amendments to Article 18, the EBRD has moved quickly to mobilize financing for projects in the new region of operations in the Southern and Eastern Mediterranean. Canada has been fully supportive of this initiative throughout, and is pleased to continue to facilitate the dialogue between the Bank and our constituency members in particular. Canada looks forward to the timely ratification of the amendments to Article 1 of the Agreement Establishing the EBRD, so that countries in this region can be considered for full country of operations status.

I would also like to take this opportunity to extend our welcome to the Republic of Kosovo, which joined us as the 66th member of the EBRD this past December.

Across the EBRD's region broadly, Canada is pleased to see that the Bank's financing activities continue to have a high transition impact while meeting sound banking principles, even in the face of a challenging economic climate.

In addition, Canada has been encouraged by a number of recent reforms to the management of the EBRD—including the recent staffing of senior management positions through open and competitive processes. In this regard, the EBRD is setting a standard for other international financial institutions to follow.

Looking Ahead

It is clear that the EBRD faces a number of significant challenges in its region of operations. Given the EBRD's finite resources and the growing demand for its expertise, it is more important than ever that the EBRD focus its activities on the countries with the largest transition gaps and the projects with the highest impact. That impact is not measured by business volume alone, but by the effect of a project on the expansion and improvement of markets, the strengthening of laws and policies that support those markets, and the transfer of knowledge in support of entrepreneurship.

We recognize that the EBRD continues to operate in a challenging environment, partly due to the economic difficulties of the euro area. Reflecting this reality, EBRD business volume in the advanced European countries has been above the targets agreed to as part of the fourth Capital Resources Review. Notwithstanding these circumstances, Canada believes that the EBRD should define a clear roadmap to graduation through its country strategies so as to facilitate the graduation of the EU-7 countries in accordance with these targets. This will allow the EBRD to apply its scarce resources to regions and projects with relatively higher transition benefits.

Furthermore, the EBRD's mandate recognizes the importance of multiparty democracy and pluralism, as well as market economics. It will be important for the EBRD to focus its resources on the countries that demonstrate a steady commitment to these principles. In countries where that commitment is waning, we encourage the EBRD to take appropriate action.

In closing, I would like to thank EBRD President Sir Suma Chakrabarti, all EBRD staff and management, and the Board of Directors for a year full of achievement.

I look forward to meeting you all again in Poland next year.